

The
Budget in Brief
2003



The Honourable John Manley, P.C., M.P.
Deputy Prime Minister and Minister of Finance

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Tel: (613) 995-2855
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Budget 2003—Building the Canada We Want

Introduction

Now is a moment of great opportunity for Canada. Thanks to the efforts and sacrifices of Canadians everywhere, our economy is strong. Where once we followed the economic performance of other nations, particularly the United States, we now lead—in growth, in job creation, in debt reduction. Our nation led the Group of Seven (G7) in growth last year and is expected to do the same in 2003.

Our resilient economic performance reflects strong economic fundamentals, which are underpinned by the Government's record of budgetary surpluses and a commitment to maintaining balanced budgets.

But this prosperity could be threatened by the uncertain global climate. Therefore, we will continue to exercise caution in our fiscal planning, restoring the full Contingency Reserve and economic prudence.

Budget 2003 recognizes the critical link between social and economic policy and how an integrated approach produces policies that benefit all Canadians.

It reflects this balanced approach in three ways:

first, by building the society Canadians value—making investments in the needs of individual Canadians, their families and their communities, in areas such as health care, education and the environment;

second, by building the economy Canadians need—fiscally prudent, deficit-free and promoting the productivity, innovation, learning and creativity that helps Canada not just compete, but win; and

third, by building the accountability Canadians deserve—through the elimination of government waste and making government spending more efficient and transparent, so Canadians know where and how their tax dollars are being used.



In short, Canadians seek a society built on their commonly held values, an economy that maximizes opportunity for all, and a transparent accounting of government's efforts to achieve those goals. This is the challenge Canadians have brought to their government. Budget 2003 is the response to that challenge and opportunity:

- it fosters a successful economy—one that leads all G7 nations;
- it continues to deliver prudent management of the nation's finances, exemplified by this government's sixth consecutive balanced budget;
- it strengthens medicare with several measures, including an investment of \$34.8 billion over five years, a commitment that supports the 2003 First Ministers' Accord on Health Care Renewal;
- it provides support for Canadians where the need is greatest—families, children, Canadians with disabilities, communities large and small, and our Aboriginal communities;
- it makes significant investments in research and development, support for learning and improvements to the tax system designed to enhance Canada's ability to compete;
- it invests \$3 billion to promote sustainable development and a healthy environment;
- it delivers on the commitment of last fall's economic update to reallocate spending from lower to higher priorities;
- it takes steps to improve the accountability and transparency of government programs; and
- it provides additional funding for Canada's role on the international stage by increasing military funding and honouring our commitment to help the poorest countries in the world.

Economic Developments and Prospects

Over the past two years Canada's economy has demonstrated remarkable resilience in the face of global weakness and uncertainty.

In 2001 the Canadian economy outperformed that of the United States and avoided recession during the global economic downturn. This is in sharp contrast to the recessions of the early 1980s and early 1990s, when Canada suffered more severe downturns and recovered more slowly than the U.S.

Thanks to strong domestic demand, the Canadian economy continued to outperform the U.S. economy in 2002 in the face of an uneven global economic recovery. The strength of the Canadian economy was particularly evident in labour markets.

Canada's resilient performance reflects strong economic fundamentals, large tax cuts and an increasingly competitive business sector. Low inflation, combined with the Government's track record of budgetary surpluses and a commitment to maintaining balanced budgets, provided the Bank of Canada with the flexibility to respond to economic weakness in 2001 by reducing short-term interest rates to levels not seen in 40 years. This has helped to support domestic demand and household confidence. Budgetary surpluses and debt repayment are also freeing up funds in capital markets for business investment and reducing Canada's reliance on foreign saving.

Canada is forecast to lead the G7 countries again in economic growth in 2003. However, the global economic outlook remains uncertain. In the face of a variety of global challenges, Canada will maintain the prudent approach to fiscal planning that has served the nation well in recent years.

Highlights

- Average economic growth in Canada in the first three quarters of 2002 was 4.4 per cent, the strongest among the G7-countries. Strong domestic demand, especially consumer spending and residential investment, led Canadian growth as external demand remained uneven.
- During 2002 the economy created 560,000 jobs, more than 60 per cent of which were full-time. All age groups and all regions of the country benefited from the job gains.
- The solid performance of the Canadian economy at a time of global weakness reflects Canada's sound economic policies. Five consecutive budgetary surpluses, a sharp drop in public debt and large tax cuts supported confidence and domestic demand. This sound fiscal policy, together with low inflation, allowed the Bank of Canada to reduce short-term interest rates to their lowest level in more than 40 years, boosting consumer spending and confidence.
- Unlike the early 1980s and early 1990s, Canada outperformed the U.S. in both output and employment growth during the global slowdown in 2001 and the recovery last year. In contrast to Canada's strong job creation record in 2002, the U.S. economy lost 229,000 jobs. The employment rate in Canada is now about the same as the U.S. rate for the first time in 20 years.
- The global recovery is expected to continue but at a moderate pace. In particular, the U.S. near-term outlook is somewhat weaker than anticipated at the time of the October 2002 *Economic and Fiscal Update* and considerable downside risks remain for the global economy. The external risks include the ongoing impact of equity market declines on U.S. investor and consumer confidence, the geopolitical risks associated with the possibility of war in Iraq and a continuation of the disruption of Venezuelan oil production. If these risks materialize, global growth would be slower than expected and this would affect Canada.
- The Department of Finance survey of private sector economists in December 2002 indicates Canadian growth of 3.3 per cent in 2002 and 3.2 per cent in 2003. Growth is expected to rise to 3.5 per cent in 2004, consistent with the expectation that the U.S. economic recovery will gain momentum in the second half of this year and into next year.
- The Organisation for Economic Co-operation and Development (OECD) and International Monetary Fund predict that Canada will outperform all G7 countries in growth in 2003.

Investing in Canada's Health Care System

Canada's publicly funded health care system plays a key role in building the society we value. It is vital to our quality of life and a reflection of the values we share as a nation. It is also at the leading edge where economic and social policies interact. It provides Canada with the distinct economic advantage of a healthy, productive workforce and provides security in retirement.

The Romanow Commission on the Future of Health Care in Canada, the Kirby Senate Study on the State of the Health Care System in Canada and several recent provincial reports clearly indicated that Canadians want and expect improved access to quality services from our publicly funded health care system. Canadians from all parts of the country have said that modernizing medicare means providing better access to services such as primary care, diagnostic services, home care, palliative care and catastrophic drug coverage. In short, they want real, substantive reforms, along with increased transparency and accountability.

Canadians have asked that their governments work together to strengthen the health care system and ensure its long-term sustainability. The new Accord on Health Care Renewal, agreed to by Canada's first ministers on February 5, 2003, reflects a common commitment among governments to work together to improve access, enhance accountability for how health dollars are spent and the results achieved, and ensure that the system remains sustainable in the long term.

"Canadians want a sustainable health care system that provides timely access to quality health services. They recognize that reform is essential, and they support new public investments targeted to achieve this goal."

2003 First Ministers' Accord on Health Care Renewal

The funds provided in this budget build on the significant investments in health care already made by the Government of Canada since the budget was balanced in 1997-98, including the September 2000 first ministers' agreement. This budget confirms increased health care funding of \$34.8 billion over the next five years. The federal government is committed to ensuring that future generations of Canadians continue to have access to universal, quality care—care that is based on need, not on the ability to pay.

Highlights

This budget makes significant investments to address the concerns of Canadians about their health care system: waiting lists, availability of diagnostic equipment and accountability for their tax dollars. These federal investments, in conjunction with those of provincial and territorial partners, will help to improve access to the health care system for Canadians, enhance accountability for how health dollars are spent, and ensure the future sustainability of the system.

- The 2003 First Ministers' Accord on Health Care Renewal is a commitment designed to improve the accessibility, quality and sustainability of the public health care system and enhance transparency and accountability in health care spending.
- Federal support to health care will increase by \$17.3 billion over the next three years and by \$34.8 billion over the next five years. This includes:
 - \$9.5 billion in transfers to provinces and territories over the next five years;
 - \$2.5 billion in an immediate investment through a Canada Health and Social Transfer supplement to relieve existing pressures;
 - \$16.0 billion over five years to provinces and territories for a Health Reform Fund targeted to primary health care, home care and catastrophic drug coverage;
 - \$5.5 billion over five years in health initiatives, including diagnostic/medical equipment, health information technology, and the creation of a six-week compassionate family care leave benefit under employment insurance; and
 - \$1.3 billion over five years to support health programs for First Nations and Inuit.
- First ministers have also agreed to an enhanced accountability framework to report to Canadians on the progress of reform.
- The federal government is setting out a long-term funding framework to provide provinces and territories with predictable, growing and sustainable support for health care and other social programs.
- The federal government will create two new transfers on April 1, 2004: a Canada Health Transfer and a Canada Social Transfer to increase transparency and accountability.

Investing in Canadian Families and Their Communities

There is a fundamental relationship between economic success and quality of life. Only a strong economy can provide the jobs and incomes required to sustain families and their communities. Equally, the benefits to the economy of strong families and safe communities are self-evident. Like universal health care, providing for the needs of Canada's households and neighbourhoods enriches Canadians' quality of life.

Strong families and communities also serve a vital role in building Canada's economy. By being the foundation on which successful lives are built, they help ensure that all Canadians are prepared for and capable of contributing to the economy. Just as investments in innovation and productivity strengthen the economy, investments in key areas of social policy help ensure the opportunities of that economy are available to all.

Budget 2003 makes further investments to help build the society Canadians value. It enhances support for Canadian families with children and persons with disabilities. It helps communities create more affordable housing, fight homelessness and improve infrastructure. It enhances the economic and social opportunities for Aboriginal Canadians. And it strengthens and promotes Canadian culture and values. These measures increase and enhance opportunities for all Canadians—helping to build the strongest possible foundation for a truly successful economy.

Highlights

Budget 2003 makes major investments to help Canadian families and communities, to improve opportunities for Aboriginal Canadians and to promote Canadian culture and values.

Supporting Canadian Families

This budget makes long-term investments in support of families with children and persons with disabilities, including:

- a \$965-million-per-year increase in the National Child Benefit supplement of the Canada Child Tax Benefit (CCTB) by 2007, to bring the maximum annual benefit for a first child provided through the CCTB to \$3,243. This will bring the estimated annual support delivered through the CCTB to over \$10 billion in 2007, an increase of over 100 per cent since 1996;

- \$935 million over the next five years to assist provinces and territories and First Nations in increasing access to quality child care and early learning opportunities, especially for low-income and single-parent families;
- \$50 million per year for a new Child Disability Benefit for low- and modest-income families that will provide up to \$1,600 annually for a child qualifying for the disability tax credit;
- \$20 million per year to expand the list of eligible expenses for the medical expense tax credit; and
- \$80 million per year to improve tax assistance for persons with disabilities, drawing on a forthcoming evaluation of the disability tax credit and the advice of a technical advisory committee.

Supporting Communities

To help communities, this budget makes significant investments to increase the supply of affordable housing, address homelessness and improve the state of Canada's infrastructure:

- \$320 million over the next five years to enhance existing affordable housing agreements with the provinces and territories, bringing the total federal investment to \$1 billion by the end of 2007–08;
- \$256 million over the next two years to extend the Government's housing renovation programs to help preserve the existing stock of affordable housing;
- \$270 million over the next two years to continue to fight homelessness; and
- an additional \$3 billion in infrastructure support over the next ten years, including \$1 billion for municipal infrastructure.

Strengthening Aboriginal Communities

Along with the initiatives to address health and other concerns on reserve and to improve economic opportunities for Aboriginal Canadians, this budget makes strategic investments to strengthen Aboriginal communities, including:

- \$172.5 million over eleven years to support Aboriginal languages and culture, of which \$18 million will be invested in the next two years;
- \$42 million over the next two years to renew and expand the First Nations Policing Program; and
- \$17 million over the next two years to work with partners to explore new ways to better meet the needs of Aboriginal people living in urban centres.

Promoting Canadian Culture and Values

The Government will invest in measures to strengthen and promote Canadian culture and values, including:

- \$150 million over two years for the Canadian Television Fund to help the production of quality Canadian programming;
- \$114.5 million in the next two years to launch a five-year action plan on official languages; and
- a contribution program of \$10 million a year to provide a financial incentive to the private sector to preserve historic places.

Investing in a More Productive, Sustainable Economy

Enhancing the well-being of Canadians, through higher living standards and a better quality of life, lies at the heart of the Government's economic and social policies. Achieving high and sustainable living standards and a better quality of life requires that economic and social progress advance together. By undertaking the right investments and creating favourable conditions for growth, the Government can help provide the foundation for such progress.

Beyond a stable fiscal and monetary climate, the key drivers of a stronger economy are those that allow Canada to improve its productivity performance. These include such factors as a tax system that encourages economic growth and job creation, and investments in new technologies and research. Equally important is ensuring that Canadians have the skills and confidence needed to participate fully in the new economy. And the country's growth must be sustainable as well as strong. This means that the Government must deal effectively with climate change and other environmental challenges.

Canada has made great strides in recent years, eliminating the deficit and accelerating the growth in its standard of living. From 1997 to 2002 Canada's growth in gross domestic product (GDP) per capita, the best measure of living standards, rose faster than in any of the other leading industrialized countries, including the U.S.

This remarkable progress comes with a clear message: continued long-term, durable economic growth will require ongoing productivity improvements. Faster productivity growth means more income and better jobs for employees, and more opportunities for Canadians for personal growth and development. Canada's economic and social policies come together through investments in people, particularly in their health and their opportunities for learning.

The measures announced in this and previous budgets are designed to help ensure Canada's productivity growth will continue to rise, and with it, Canadians' standard of living. A key element in raising productivity will be to make Canada a magnet for talent and investment—a crucial part of how Canada positions itself as a “Northern Tiger.” As part of this effort, the Government has made and will continue to make substantial investments to strengthen research and innovation, support skills and learning and improve Canada's health care system. It will introduce measures that build on the Government's Five-Year Tax Reduction Plan to further improve the tax system, enhance incentives to work, save and invest, promote entrepreneurship and small business, and strengthen the Canadian tax advantage for investment.

A more productive economy is not just about higher incomes for Canadians. It is also about ensuring that our economic choices integrate social and environmental considerations to ensure Canada's development is sustainable. All sectors of the economy must confront and act on this challenge to position themselves for sustainable future growth and competitiveness.

Highlights

Strengthening Research and Innovation

This budget will invest \$1.7 billion in 2002–03 and over the next two years to support research and innovation, including:

- a \$125-million-per-year increase in funding for Canada's three federal granting councils beginning in 2003–04;
- a new Canada Graduate Scholarships program supporting 4,000 new scholarships at program maturity;
- \$225 million per year to help fund the indirect costs associated with federally sponsored research through the granting councils beginning in 2003–04;
- \$16 million over the next two years for northern science;
- investments of \$500 million in the Canada Foundation for Innovation for state-of-the-art health research facilities and \$75 million in Genome Canada for health genomics;
- \$15 million to the Rick Hansen Man In Motion Foundation and \$20 million to the Medical and Related Sciences project;
- \$30 million for SchoolNet and the Community Access Program;
- an additional \$70 million over two years for the National Research Council of Canada to strengthen the Industrial Research Assistance Program, support astronomy and establish new regional innovation centres; and
- an additional \$190 million in equity to expand venture capital by the Business Development Bank of Canada and \$20 million for Aboriginal Business Canada in support of entrepreneurship and business development.

Supporting Skills and Learning

This budget provides \$285 million in 2002–03 and over the next two years for skills and learning, including:

- \$41 million to better attract and facilitate the integration of skilled immigrants into the Canadian labour market and society;
- \$60 million over two years to improve the Canada Student Loans Program;
- \$100 million for the creation of the proposed Canadian Learning Institute; and
- \$72 million to improve educational outcomes for Aboriginal people and ensure they are provided with training and employment opportunities on major projects across Canada.

Improving the Tax System

This budget builds on the Government's Five-Year Tax Reduction Plan to further improve the tax system and enhance incentives to work, save and invest. This budget:

- supports Canadian families by increasing the National Child Benefit supplement and introducing a new Child Disability Benefit;
- encourages savings by Canadians by increasing the registered retirement savings plan annual contribution limit to \$18,000 by 2006 and making corresponding increases for employer-sponsored registered pension plans;
- promotes entrepreneurship and small business through a number of tax changes, including an increase in the small business deduction limit to \$300,000 over four years;
- strengthens the Canadian advantage for investment by legislating the elimination of the federal capital tax over five years, eliminating it for medium-sized corporations as early as 2004;
- improves the taxation of resource income in Canada by reducing the corporate tax rate of the sector to 21 per cent over the next five years while making changes to the tax structure of this key sector;
- extends the temporary mineral exploration tax credit; and
- enhances the Film or Video Production Services Tax Credit.

Advancing Sustainable Development

Budget 2003 includes measures totalling \$3 billion to promote sustainable development and a healthier environment, such as:

- \$2 billion over five years in measures to help implement the Climate Change Plan for Canada through: increased government support for Sustainable Development Technology Canada and the Canadian Foundation for Climate and Atmospheric Sciences; improved tax incentives in renewable energy; and funding for other climate change measures, including targeted initiatives and partnerships. Actions to promote energy efficiency, renewable energy, sustainable transportation and new alternative fuels, in such areas as building retrofits, wind power, fuel cells and ethanol, will be considered;
- an investment of \$340 million over two years to address federal contaminated sites, improve air quality, better assess and manage toxic substances, further protect Canada's species at risk, and support implementation of Canada's commitments at the World Summit on Sustainable Development;
- \$600 million over five years to upgrade, maintain and monitor water and waste water systems on reserves; and
- \$74 million over two years as an initial investment for the establishment of 10 new national parks and 5 new national marine conservation areas and to restore the ecological health of existing parks.

Renewing Canadian Agriculture

In June 2002 the Government delivered on its previous commitment to provide predictable, long-term funding for agriculture by allocating \$5.2 billion over six years to the sector. Budget 2003 builds on the new direction for agricultural policy through new investments in several areas:

- \$220 million this fiscal year to provide an advance to the Crop Reinsurance Fund, ensuring that farmers will receive future payments;
- \$100 million over the next two fiscal years to the Canadian Food Inspection Agency to help it maintain the food safety system;
- \$30 million over the next two fiscal years to the Canadian Grain Commission to allow it to maintain its level of service to farmers;
- \$113 million this fiscal year for infrastructure improvements at Canada's four veterinary colleges; and
- \$20 million over the next two years to supplement Farm Credit Canada investments for further promotion of innovation in the agricultural sector.

Canada in the World

Canada has a long history of successfully embracing global markets, and Canadians recognize that international stability, security and prosperity are key to their well-being.

Developments over the last 18 months have reminded Canadians that security and prosperity cannot be taken for granted. The global environment requires a military that is funded and equipped to help shoulder its international responsibilities, as our efforts in the war against terrorism, and particularly in Afghanistan, have demonstrated. This budget provides further support to Canada's military this year and beyond.

New security concerns have demanded action to keep our borders secure, while facilitating the legitimate flow of goods, services and people. In the aftermath of September 11, 2001, the Government introduced a \$7.7-billion package of measures to ensure the security of Canadians—the largest in Canadian history. Much has been achieved since then. The Government has moved ahead with important new initiatives in the areas of air, marine and border security and is committed to do more.

The Government has partnered with Canadian businesses to help them make the most of the opportunities available in Canada's major foreign markets and enter and thrive in new ones. As the pace of global competition quickens, it becomes ever more important that the Government continue to advance the interests of Canadians in active, innovative and responsive ways. This budget boosts Canada's presence in its most important foreign market, the United States.

The unrest in many parts of the world and the poverty that afflicts so many in the developing world offend Canadians' values and threaten Canada's security and economic prosperity. That is why, from its peacekeeping activities to land mine treaties to the G8 Africa Action Plan, to its leadership on debt relief and providing free access to the Canadian market for virtually all goods from the least developed countries, Canada has a rich history of effective, compassionate responses to international challenges. Such actions to combat global instability and poverty are the responsible actions of a country dedicated to helping build strong societies beyond its own borders.

Highlights

Strengthening Canada's Military

- This budget makes a significant, long-term investment in Canada's defence capabilities, including:
 - an immediate allocation of \$270 million this fiscal year for Operation Apollo in Afghanistan and to address urgent capital and other requirements; and
 - an ongoing increase of \$800 million per year of new funding beginning in 2003–04.
- It also sets aside a \$125-million reserve for contingencies in 2002–03 and \$200 million for 2003–04.

Ensuring Security at Home

- Budget 2003 builds on the large investment by the Government in 2001 to respond to Canada's changed domestic security needs. New measures include:
 - a reduction in the level of the Air Travellers Security Charge for travel within Canada from \$12 to \$7 for one-way travel and from \$24 to \$14 for round-trip travel;
 - an additional \$50 million next fiscal year and \$25 million in 2004–05 for the Security Contingency Reserve to help the Government to respond to unforeseen future security needs, including border security; and
 - to ensure the Canadian Coast Guard can provide necessary safety services, \$94.6 million over the next two years for major repairs to its fleet for shore-based infrastructure and capital replacement purchases.

Enhancing Canada–U.S. Trade

- Recognizing that cross-border trade is critical to Canada's economy, Budget 2003:
 - supports the implementation of the Canada–U.S. 30-point Smart Border Action Plan to enhance the security of the border and facilitate the legitimate flow of people and goods; and
 - commits \$11 million over the next two years to bolster Canada's representation and trade promotion activities in the U.S.

Increasing Canada's International Assistance

- Budget 2003 confirms Canada's commitment to meeting its international obligations:
 - the budget increases Canada's International Assistance Envelope by 8 per cent annually through 2004–05 toward the objective of doubling the assistance budget by 2010. This translates into an increase of \$1.4 billion this fiscal year and the next two fiscal years; and
 - effective January 1, 2003, Canada is providing duty-free and quota-free access to all imports from 48 of the world's least developed countries, with the exception of certain agricultural products.

Improving Expenditure Management and Accountability

The Government has been successful in keeping the country on a sound financial footing by maintaining balanced budgets for six consecutive years since 1997–98. It has achieved this through a balanced approach to spending growth and debt and tax reduction. However, as the Minister of Finance said in the October 2002 *Economic and Fiscal Update*, “...sound fiscal management means more than simply avoiding deficits and reducing debt. It also means managing tax dollars well and responsibly, and delivering cost-effective and efficient government services.”

Sound fiscal management requires continually reassessing the value of existing programs so that the Government can reallocate resources from low priorities to high priorities. It also requires continually looking for new, more cost-effective ways to deliver government programs. And it means being transparent about how Canadians’ tax dollars are being spent so that the Government can be fully accountable to Canadians.

Controlling total expenditure growth contributed significantly to bringing the budget into balance in 1997–98 after almost three decades of uninterrupted deficits, and has helped to keep it in balance since then. This has allowed the Government to reduce debt and invest in key social and economic priorities, while at the same time implementing the largest tax cuts in Canadian history. The Program Review process, during which the Government reassessed its programs to identify those that no longer served a national purpose or could be delivered more efficiently through other means, was an important contributor to controlling expenditure growth.

With this budget, the Government is undertaking new measures to better manage taxpayers’ dollars, building on the experience of Program Review. These initiatives include launching an ongoing review of the relevance and efficiency of government programs, and reallocating resources from across government to highest priority areas.

Greater accountability will further support the Government’s effort to improve the management of taxpayers’ dollars. It will support better decision making and greater efficiency. The Government’s plans to enhance accountability to Canadians include: more comprehensive and up-to-date financial reporting; clearer transparency and accountability for transfer payments to the provinces and territories in support of health care; enhanced accountability for non-governmental foundations; clear rate-setting processes for non-tax revenues including employment insurance contributions, the Air Travellers Security Charge and user charges; and measures to improve investor confidence by strengthening enforcement against securities and corporate fraud offences.

Highlights

■ **Reallocation:** The Government is implementing its commitment in the October 2002 *Economic and Fiscal Update* to reallocate funding from lower to higher priorities.

- The Government will launch an ongoing examination of all non-statutory programs on a five-year cycle under the leadership of the Treasury Board, drawing on the experience of the 1994 Program Review. The goals will be to ensure that government programs continue to be relevant, effective and affordable.
- The Government will reallocate \$1 billion per year from existing spending programs, beginning in 2003–04. This will fund close to 15 per cent of the costs of the new initiatives announced in this budget over the next two years.

■ **Accrual Accounting:** Beginning with this budget, the Government will implement its commitment to present its financial statements on a full accrual accounting basis.

- Under full accrual accounting, the Government will provide a more comprehensive accounting of its assets and liabilities, presenting a more transparent picture of the Government's financial position and enhancing accountability, the management of liabilities and the stewardship of assets.
- Implementing full accrual accounting responds to a long-standing recommendation of the Auditors General of Canada.

■ **Accountability of Foundations:** The Government will make a number of changes to improve the accountability and governance arrangements of arm's-length foundations. This, in combination with clarifying the policy principles underlying the use of foundations, will ensure their continued effective use.

■ **Accountability to Parliament:** To reinforce accountability and transparency in public reporting, the Government will continue to improve the relevance, timeliness and clarity of the information it provides to Parliament.

■ **Canada Health Transfer:** As part of the 2003 First Ministers' Accord on Health Care Renewal, the Government will implement a new Canada Health Transfer and a new Canada Social Transfer effective April 1, 2004, to improve the transparency and accountability of monies transferred for health care.

- **Employment Insurance (EI) Contribution Rate Setting:** With this budget:
 - The Government will reduce the EI employee contribution rate for 2004 to \$1.98 per \$100 of insurable earnings. This is the 10th reduction in the rate since 1994.
 - As well, the Government will consult on a new EI rate-setting regime for 2005 and beyond, based on the principles of transparency and of balancing premium revenues with expected program costs.
- **Strengthening Investor Confidence:** This budget advances the Speech from the Throne commitment to improve regulations and to help foster a healthy marketplace and inspire confidence among investors by strengthening enforcement against securities and corporate fraud offences.
- **Air Travellers Security Charge:** This budget follows up on the Government's commitment to review the Air Travellers Security Charge to ensure that revenue from the charge remains in line with planned expenditures for the enhanced air travel security system through 2006–07.
 - As a result of that review, and reflecting the impact of the move to full accrual accounting in this budget, the Government will reduce the charge on flights within Canada by over 40 per cent, from \$12 to \$7 for one-way travel and from \$24 to \$14 for round-trip travel.
- **Debt Servicing and Reduction Account:** Legislation to terminate the Debt Servicing and Reduction Account, as recommended by the Auditor General, will be introduced.
- **User Charging and Cost Recovery:** The President of the Treasury Board will set out the principles for improved management practices relating to user charging and cost recovery. The new policy will include annual reporting of revenues and performance information to stakeholders and Parliament.

Sound Financial Management in an Uncertain World

Sound financial management has resulted in the Government recording five consecutive annual surpluses through 2001–02 and reducing the federal debt by \$47.6 billion. At the same time, it has allowed the Government to implement the largest tax cut in Canadian history and to invest in key priorities of Canadians, such as health care, support for lower-income families with children, education, and research and development.

This sound financial management played an important role in helping Canada avoid a recession in 2001 despite the global economic downturn. It enabled fiscal and monetary policy to provide timely support to the Canadian economy through lower taxes and interest rates. The continual commitment to fiscal discipline allowed Canada to post a budgetary surplus in 2002, while all other G7 countries posted deficits. It also helped Canada record the best economic performance among the G7 countries in 2002, notwithstanding an uneven global recovery.

The Government is committed to maintaining this prudent approach to fiscal planning—an approach that has paid off and remains essential given the uncertain times. It includes a prudent approach to budget planning, with most budget decisions made over a rolling two-year horizon. To ensure the federal budget remains in balance or better, this budget restores the full \$3-billion annual Contingency Reserve and economic prudence in the fiscal projections.

This budget provides projections of the federal government's finances for 2002–03 and the next two years of the Government's budget plan. It updates the fiscal projections contained in the October 2002 *Economic and Fiscal Update* for:

- the impact of the revised economic outlook, reflecting the most recent survey of Canadian private sector economists, and recent financial developments;
- the impact of the implementation of full accrual accounting; and
- the impact of the spending and revenue measures proposed in this budget.

Canada's fiscal performance stands out among the major industrialized countries. According to the OECD, Canada is the only G7 country in surplus in 2002. It is also the only G7 country the OECD expects to be in surplus in 2003.

Highlights

- After accounting for the fiscal impact of the proposed new spending initiatives and tax cuts, this budget projects balanced budgets or better in 2002–03—the sixth consecutive balanced budget—and in each of the next two fiscal years.
- These balanced budgets are backed by the normal annual Contingency Reserve of \$3 billion, and economic prudence of \$1 billion in 2003–04 and \$2 billion in 2004–05. The Contingency Reserve, if not needed, will reduce debt.
- On an accrual basis, the federal debt (accumulated deficit) as a percentage of the economy is projected to fall to 44.5 per cent in 2002–03, down from its peak of 67.5 per cent in 1995–96. With the commitment to balanced budgets in each of the next two fiscal years, it is forecast to decline to about 40 per cent in 2004–05.
- Program spending is expected to increase by 11.5 per cent, or \$14.3 billion, in 2002–03 and average about 4 per cent growth over the next two fiscal years. In 2002–03 health-related spending, increased transfers to the elderly and the unemployed, and higher defence and security-related spending account for nearly three-quarters of the increase. As a percentage of GDP, program spending averages about 12 per cent over the 2002–03 to 2004–05 period.
- Budgetary revenues are estimated at 15.7 per cent of GDP in 2002–03—the lowest share of the economy since the late 1970s. This reflects the impact of the Government's Five-Year Tax Reduction Plan. This ratio is expected to continue to decline over the next two years, reflecting the Five-Year Tax Reduction Plan and further tax reductions proposed in this budget.

Federal Debt (Accumulated Deficit)

In response to the Auditor General of Canada, this budget is presented on a full accrual basis of accounting. Under the previous accounting standard—modified accrual accounting—net debt and the accumulated deficit were identical. Under the new standard, net debt now includes a more comprehensive costing for financial liabilities but excludes non-financial assets. The accumulated deficit includes both. It is the sum of all surpluses and deficits in the past. The accumulated deficit will also be referred to in the *Annual Financial Report of the Government of Canada* and budget documents as the “federal debt.”

Summary of Spending and Revenue Initiatives in This Budget

Table 1 presents the fiscal impact of the spending and revenue initiatives proposed in this budget. The net cumulative fiscal cost of the measures over the three years 2002–03 to 2004–05 amounts to \$17.6 billion.

Table 2 presents the fiscal outlook to 2004–05, taking into account the impact of the revised economic outlook and financial developments to date, the shift to full accrual accounting and the spending and revenue initiatives proposed in this budget.

Table 1*Spending and Revenue Initiatives: 2003 Budget*

	2002– 2003	2003– 2004	2004– 2005
	(millions of dollars)		
Spending initiatives			
Investing in Canada's health care system			
CHST supplement	2,500		
Health Reform Fund		1,000	1,500
Diagnostic/Medical Equipment Fund	1,500		
Health information technology	600		
EI compassionate care		86	221
Other health initiatives	120	283	374
Total	4,720	1,369	2,095
Investing in Canadian families and their communities			
Families with children		25	81
Canadians with disabilities		193	193
Child and family law strategy		27	26
Supporting communities			
Affordable housing and support for homeless		293	313
Infrastructure		100	150
Other		23	23
Strengthening Aboriginal communities		38	45
Promoting Canadian culture and values		188	233
Total		886	1,065
Investing in a more productive, sustainable economy			
Strengthening research and innovation	575	470	470
Skills and learning	12	171	102
Advancing sustainable development	4	699	437
Agriculture	333	65	65
Total	924	1,405	1,074
Canada in the world			
Defence	270	800	800
Contingency	125	200	
International assistance	353	202	820
Other		99	81
Total	748	1,301	1,704
Expenditure management and accountability			
Regulation	7	25	34
Expenditure reallocation		-1,000	-1,000
Total spending initiatives	6,398	3,986	4,969

Table 1*Spending and Revenue Initiatives: 2003 Budget (cont'd)*

	2002– 2003	2003– 2004	2004– 2005
	(millions of dollars)		
Revenue initiatives			
Investing in Canada's health care system			
GST rebate for health care institutions		30	55
Investing in Canadian families and their communities			
Families with children			
National Child Benefit supplement		200	300
Canadians with disabilities		95	160
Investing in a more productive, sustainable economy			
Advancing sustainable development		5	5
Improving the tax system			
Supporting savings by Canadians	25	105	165
Supporting entrepreneurship and small business		90	140
Building the Canadian tax advantage	10	140	545
El premium rate reduction		53	178
Total revenue initiatives	35	718	1,548
Total spending and revenue initiatives	6,433	4,704	6,517

Table 2*Summary Statement of Transactions: Budget 2003: Full Accrual With Measures*

	2001– 2002	2002– 2003	2003– 2004	2004– 2005
	(billions of dollars)			
Budgetary transactions				
Budgetary revenues	171.7	178.7	184.7	192.9
Total expenditures				
Program spending	124.3	138.6	143.0	149.6
Public debt charges	39.3	37.2	37.6	38.4
Total expenditures	163.5	175.8	180.7	188.0
Underlying budgetary surplus	8.2	3.0	4.0	5.0
Less prudence				
Contingency Reserve		3.0	3.0	3.0
Economic prudence			1.0	2.0
Total		3.0	4.0	5.0
Budgetary balance	8.2	0.0	0.0	0.0
Federal debt (accumulated deficit)				
Balanced budget (no debt reduction)	507.7	507.7	507.7	507.7
Non-budgetary transactions				
Loans, investments and advances	-0.1	-1.3	-1.4	-1.5
Pensions and other accounts	-0.1	0.4	-0.6	-1.4
Other	-3.2	4.3	-3.7	0.7
Total	-3.5	3.4	-5.8	-2.1
Financial requirements/source	4.7	3.4	-5.8	-2.1
Per cent of GDP				
Budgetary revenues	15.7	15.7	15.4	15.2
Program spending	11.4	12.2	11.9	11.8
Public debt charges	3.6	3.3	3.1	3.0
Budgetary balance	0.7	0.0	0.0	0.0
Federal debt (accumulated deficit)				
Balanced budget (no debt reduction)	46.5	44.5	42.2	40.1
Debt reduced by \$3 billion per year	46.5	44.3	41.7	39.6

Note: Numbers may not add due to rounding.

